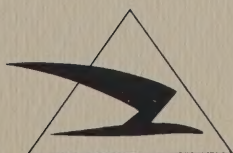


**Annual Report
1964**



Spartan Air Services Limited

Spartan Air Services Limited and its Subsidiaries

**ANNUAL REPORT
FOR THE YEAR ENDED OCTOBER 31st, 1964**

SUBSIDIARY COMPANIES

Sulmac Exploration Services Limited
Toronto, Canada

Velocity Surveys Limited
Calgary, Alberta
Brisbane, Australia

Spartan Air Services, S.A.
Buenos Aires, Argentina

Meridian Airmaps Limited
Lancing, England

Spartan Air Services Pty. Ltd.
Brisbane, Australia

DIRECTORS

W. P. McGILL

J. A. ROBERTS

B. E. McGILL

F. C. McCONNELL

E. A. GLICK

J. H. HAWKE

D. W. McLARTY

CORPORATE DATA

Auditors
Harbinson, Glover & Co.

Transfer Agent and Registrar
The Royal Trust Company
Toronto, Montreal, Winnipeg and Vancouver

Legal Counsel
Manley, Grant & Armstrong, Toronto

To the Shareholders:

Introduction

A brief outline of the history of the company and its capabilities was presented in the Annual Report for the 1963 fiscal year.

There has been no major departure from the aims and activities of the company as described at that time, and it is, therefore, not proposed to repeat the information in this report. However, it does give considerable satisfaction to be able to inform the shareholders that in almost every instance the aims for 1964 discussed then have been achieved.

It is also satisfying to note that there has been no change in the senior executive staff of the companies, which together make up the Spartan Group, and that all companies have enjoyed increased participation in their various fields.

Employees

The total number of employees in the group has increased during the year to approximately 700. This is attributable mainly to the expansion of our operation in Argentina, and other foreign projects.

In addition, a new unit has been created within the Land Resources Department in Ottawa, to carry out an extensive research and development programme in respect to the methods of collection and handling of data, as well as processing of the data by electronic computers, in connection with the rehabilitation of marginal lands. The project, staffed by highly qualified professionals, is being carried

out under a contract with the Government of Canada.

Financial Results

The consolidated net earnings for the period compare favourably with the similar figure for the previous year, particularly when consideration is given to the fact that the previous year's net included substantial income of a non-recurring nature.

As a result of the consolidated earnings of the group, working capital was increased further from \$832,000 to \$1,191,000.

Again, all subsidiary and associate companies, both in Canada and overseas, contributed to the consolidated earnings for the period.

The Year in Review

Production on the aeromagnetic surveys under the Federal-Provincial Road to Resources Programme was continued well ahead of schedule, and indeed to the completion of most of the current programme. At the present time, tenders have been submitted on the new series of contracts, and the company has been fortunate in again securing a major portion of this work, to be completed during the ensuing three years.

Helicopter operations were maintained at a satisfactory level during 1964. The company has been able to employ a large proportion of the helicopter fleet in support of its own and subsidiaries' operations, both in Canada and abroad.

During the year, the company expanded further its participation in the oil exploration market in Western Canada and the mining exploration market in Eastern Canada. The company has also, for the first time, undertaken important mining exploration in British Columbia. An office has been opened in Vancouver to better serve this market.

The engineering services of the company and particularly the Land Resources Department have been further expanded and increased activity has been enjoyed in this field. Marketing emphasis continues to be placed on this phase of the company's business.

The foreign sales effort of previous years has again resulted in increased activities overseas, to the point where work performed outside of Canada now represents approximately 50% of the overall gross of Spartan and its subsidiaries. This provides the company with a broader base from which to improve its competitive and operational position.

A major two-year engineering contract in the new country of Tanzania has been awarded to the company by the Government of Canada, and is being performed under the auspices of the External Aid Office. Further important extensions to the forestry and training programme contract in Kenya have also been secured.

In Argentina, the company's cadastral mapping programme with the Province of Mendoza was again extended on favourable terms and is continuing with impetus and in good favour. Additional commercial work has been obtained and has necessitated the expansion of facilities and equipment in that country. A heavy workload is still maintained by this company and the prospects for the future appear favourable.

Following the new installations for Meridian Airmaps Limited at Lancing, Sussex, England, and the new quarters for Spartan Air Services S.A. both in Mendoza and Buenos Aires, little new housing was required with the exception of Velocity Surveys in Calgary. This company, together with Spartan, has now moved into new joint facilities at a location near the municipal airport. The move was completed in September of 1964 and these joint facilities will do much for an extended and active programme of exploration in the oil industry in Western Canada.

Research was carried out during the year on new types of aircraft for high level photography, and general use, in order to replace our Mosquito aircraft at an early date. This research should be culminated during the 1965 fiscal year allowing us to replace the costly and obsolescent aircraft.

The major contracts successfully negotiated during the year under review assure the company of stability in 1965 and the ensuing years into which these projects will continue.

The increase in foreign aid to the less developed countries should continue to provide the company with a ready market for its services in the engineering and resources fields in the years ahead. The general upswing in the Canadian economy also assures increased activity in exploration and other fields in which the company provides its services.

The outlook for Spartan, in both Canada and overseas, would now appear to be one of progress and stability, with increase in activity and earnings commensurate with this general increase in workload. It is confidently hoped that the progress achieved during 1964 can be maintained and further enhanced in the 1965 fiscal year.

Presented on behalf of the Board,
W. P. MCGILL,
President.

Spartan Air Services

Consolidated Balance

ASSETS

Current:

Cash on hand and in bank.....	\$	39,312	
Marketable securities at cost (market value \$2,791) (Note 12) ..		26,502	
Deposits and accounts receivable, less allowance for doubtful accounts.....		1,867,417	
Unbilled contract work—at selling price.....		418,560	
Inventories:			
Work-in-process—at selling price, less estimated profit margin.....	\$380,358		
Components, spare parts and miscellaneous supplies, at cost (Note 15).....	426,097	806,455	
Prepaid expenses and deferred charges.....		210,485	\$3,368,731

Fixed (at cost):

Aircraft and aerial cameras.....	\$1,714,385		
Other equipment.....	1,617,290		
Buildings on leasehold land (Notes 3 and 5).....	292,415		
Leasehold improvements.....	20,814		
	\$3,644,904		
Less: Accumulated depreciation and amortization.....	2,045,823	1,599,081	

Organization expense, less accumulated amortization..... 145,574

Excess of the cost of investment in subsidiaries over the book value of their net assets..... 235,154

\$5,348,540

Signed on behalf of the Board:

“W. P. McGILL,” Director.

“B. E. McGILL,” Director.

ed and Its Subsidiaries

as at October 31, 1964

LIABILITIES

Current:

Bank advances (partially secured)	\$ 353,787	
Accounts payable and accrued liabilities	541,839	
Loans payable (secured)	692,631	
Income taxes payable	16,967	
Current instalments of funded debt and other long-term liabilities	233,892	
Advance payments on contracts	338,471	\$2,177,587
Funded debt and other long-term liabilities (Note 9)	\$ 939,551	
Less: Instalments included with current liabilities	233,892	705,659
Minority interest in Meridian Airmaps Limited		32,053

SHAREHOLDERS' EQUITY

Capital Stock:

Authorized:

1,350 6% Cumulative redeemable Class "A" preferred shares of a par value of \$100 each

8,500 6% Cumulative redeemable Class "B" preferred shares of a par value of \$100 each, less 457 shares purchased for redemption and cancelled

3,000,000 Common shares of no par value (Note 10)

Issued and fully paid:

1,350 Class "A" preferred shares (Note 11)

\$ 135,000

2,387,015 Common shares (Note 8)

3,018,943

\$ 3,153,943

Deficit (Exhibit 2) (Note 17)

(720,702)

2,433,241

\$5,348,540

The notes to the consolidated financial statements are an integral part of this statement.

Spartan Air Services Limited and Its Subsidiaries

Consolidated Statement of Earnings

For the Year Ended October 31, 1964

Profit before taking into account the following items.....		\$ 723,096
Depreciation and amortization of fixed assets (Note 16).....	\$ 259,579	
Amortization of organization expense.....	18,073	
Interest on funded debt and other long-term liabilities.....	51,482	
Legal fees.....	4,056	
Remuneration of executive officers including subsidiaries.....	145,228	
	<u>\$ 478,418</u>	
Less: Profit on disposal of assets (net).....	11,759	466,659
		<u>\$ 256,437</u>
Provision for income taxes.....		12,630
		<u>\$ 243,807</u>
Minority interest in net profit of Meridian Airmaps Limited.....		1,886
Net profit.....		<u><u>\$ 241,921</u></u>

Consolidated Statement of Deficit

For the Year Ended October 31, 1964

Balance, November 1, 1963.....	\$ 862,661
Unrealized loss on exchange on conversion of accounts of foreign subsidiary.....	99,962
	<u>\$ 962,623</u>
Net profit.....	241,921
	<u><u>\$ 720,702</u></u>

The notes to the consolidated financial statements are an integral
part of this statement.

AUDITORS' REPORT

To the Shareholders of
SPARTAN AIR SERVICES LIMITED

We have examined the consolidated balance sheet of Spartan Air Services Limited and its Subsidiaries as at October 31, 1964, and the consolidated statements of earnings and deficit for the year ended on that date, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of earnings and deficit, when read in conjunction with the notes appended thereto, are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company and its subsidiaries as at October 31, 1964, and the results of their consolidated operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HARBINSON, GLOVER & CO.
Chartered Accountants

Toronto, Ontario,
April 30 , 1965.

Spartan Air Services Limited and Its Subsidiaries

Notes to Consolidated Financial Statements as at October 31, 1964

Note 1. The consolidated statements include 100% of Sulmac Exploration Services Limited, Velocity Surveys Limited, Badger Drilling Co. Ltd., and Spartan Air Services S.A. and 51% of Meridian Airmaps Limited. There are other subsidiaries not consolidated which are inactive and are valued at \$1.00 each.

Note 2. The accounts of Spartan Air Services S.A. are included in the consolidated statements at the rate of exchange of \$0.0074 Canadian to 1 (one) Argentine peso with the exception that fixed assets, incorporation expense and issued capital are converted at the rates of exchange effective at the dates of acquisition. The accounts of Meridian Airmaps Limited are included in the consolidated statements at the rate of exchange of \$3.00 Canadian to £1 Sterling.

Note 3. On August 15, 1956, the Company entered into a contract to lease certain land in Ottawa from the Department of Transport for a period of twenty years at an annual rental of \$3,250. The building owned by the Company is constructed on this land.

Note 4. The Company, together with Velocity Surveys Limited (a subsidiary company) has entered into a twenty year lease for the premises now occupied in Calgary, Alberta. The terms of the lease require an annual payment of \$15,300.

Note 5. Under the terms of the lease of the factory, Meridian Airmaps Limited is required within ten years of January 1, 1963 to construct a roadway to the premises. No provision has been made for this cost in the accounts.

Note 6. The loan due to the Industrial Development Bank, secured by a first, fixed and specific charge on the Company's aircraft and equipment and a first floating charge on all other property and assets has been negotiated to provide for the following payments after the application of insurance proceeds of \$15,300 due to the Company at October 31, 1964—one payment of \$4,300 on March 23, 1965, \$30,800 before October 23, 1965, \$175,000 before December 23, 1966, and \$4,600 before January 23, 1967. Interest will be computed at 7% per annum payable monthly.

Note 7. The sinking fund requirements of the series "A" debentures at present call for an annual principal redemption of \$72,000 on the first day of October 1964 to 1969 inclusive.

Note 8. During the year, 564,000 common shares were issued for \$305,480. Of the total shares allotted, 550,000 were issued for cash of \$301,000 and 14,000 were issued in payment of an incentive bonus valued at \$4,480.

Note 9. Funded debt and other long-term liabilities include the following obligations:

Notes payable (secured)—(maturing 1963-1968).....	\$217,551
Bank Loan (secured)—(maturing 1965-1970).....	45,000
Industrial Development Bank Loan (secured)—(Note 6).....	230,000
6% Sinking fund debentures Series "A" (secured)—(Note 7).....	432,000
5% Debentures payable (maturing November 25, 1964).....	15,000
	<u>\$939,551</u>

Note 10. Share purchase warrants in respect of 99,900 common shares are outstanding at October 31, 1964 at the following prices:

- \$4.50 per share if exercised before December 1, 1964,
- \$5.50 per share if exercised after December 1, 1964 or on or before December 1, 1966.

Note 11. Dividends aggregating \$56,700 on the Class "A" preferred shares are in arrears for the fiscal years 1958 to 1964 inclusive. Under the rights and privileges attached to those shares, each share carries the right to 100 votes when dividends are in arrears for two or more years.

Note 12. Marketable securities of a subsidiary include 93,128 shares of Mespi Mines Limited received in settlement of an account receivable previously written off. The value of \$18,626 attributed thereto by management is equivalent to the account written off. The subsidiary has received an option, expiring April 15, 1965, to purchase all or any part of the shares at \$.20 each.

Note 13. The Company has a contingent liability to Arctic Wings Limited who is being sued for \$100,000 personal injuries and \$11,000 property damage in connection with an accident which occurred in 1953. This action has been contested on the advice of counsel of Arctic Wings Limited.

Note 14. A subsidiary company is contingently liable as a guarantor for mortgages of approximately \$64,000.

Note 15. The inventory of fixed wing components, spare parts and miscellaneous supplies amounting to \$125,439 was not physically counted by management due to very little turnover in 1964. For the purposes of our audit we have accepted a certificate signed by an officer of the company that this inventory was on hand and valued at cost.

Note 16. Depreciation was not taken, as in prior years, on certain aircraft, the book value of which was felt by management to be below their market value. The amount of depreciation on the straight line basis not taken was \$41,210.

Note 17. Included in the deficit account is a contributed surplus of \$147,768 and a capital surplus of \$45,700.

